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*REPORT TO THE JOINT COMMITTEE  
ON INTERNAL REVENUE TAXATION  
CONGRESS OF THE UNITED STATES*



*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

UNITED STATES  
GENERAL ACCOUNTING OFFICE

APR 6 1976

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**Internal Revenue Service  
Assistance To Taxpayers  
In Filing Federal  
Income Tax Returns**

**Department of the Treasury**

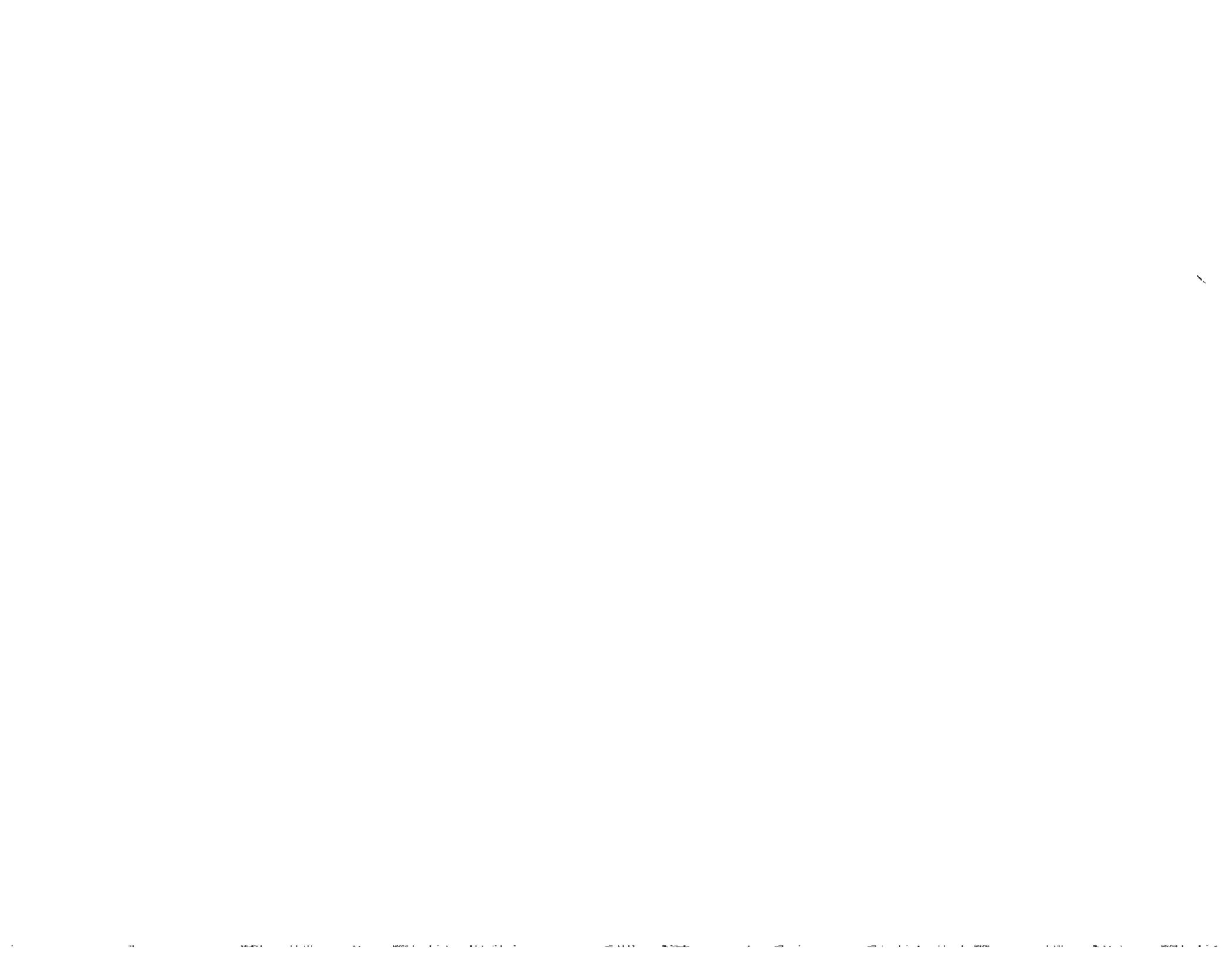
The Internal Revenue Service makes a reasonable effort to help taxpayers by answering questions, clarifying the law, and explaining filing requirements. Most taxpayers using this help are satisfied with it.

The agency does not emphasize full return preparation which is a pressing need for many taxpayers. However, given the existence of a large tax industry which emphasizes this service, there seems to be no clear justification for a strong unilateral venture by the agency into the field.

GGD-76-49

APRIL 1, 1976

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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To the Chairman and Vice Chairman  
Joint Committee on Internal Revenue Taxation  
Congress of the United States

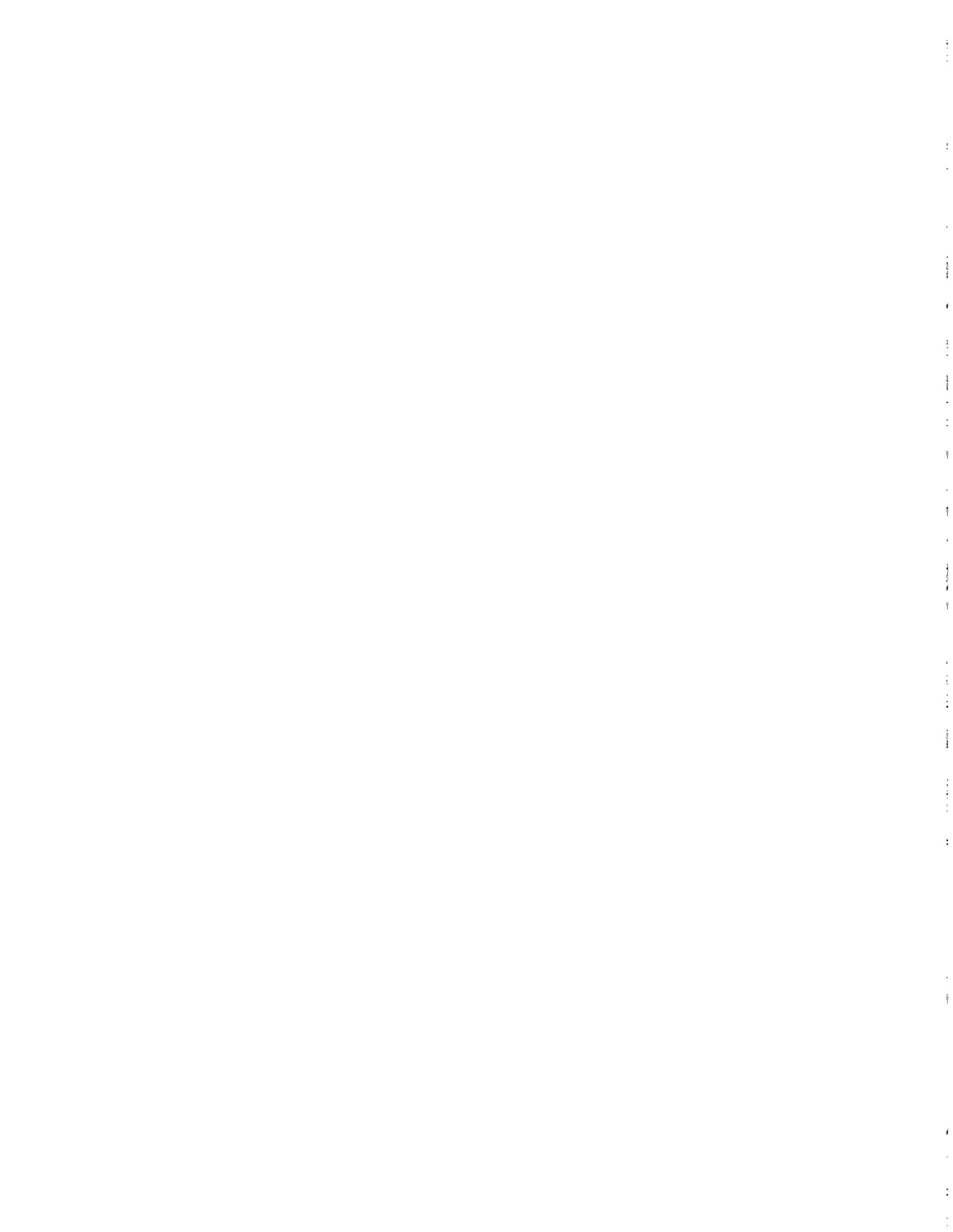
This report discusses Internal Revenue Service help provided to taxpayers in filing their Federal income tax returns. It is one of a series of reports in response to the request of your Committee.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Commissioner of Internal Revenue.

Sincerely yours

A handwritten signature in black ink, appearing to read "James A. Heath".

Comptroller General  
of the United States



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ABBREVIATIONS

GAO	General Accounting Office
IRS	Internal Revenue Service
TSR	Taxpayer Service Representative
VITA	Volunteer Income Tax Assistance



COMPTROLLER GENERAL'S REPORT  
TO THE JOINT COMMITTEE ON  
INTERNAL REVENUE TAXATION  
CONGRESS OF THE UNITED STATES

INTERNAL REVENUE SERVICE  
ASSISTANCE TO TAXPAYERS  
IN FILING FEDERAL INCOME  
TAX RETURNS  
Department of the Treasury

D I G E S T

The Internal Revenue Service directly assisted taxpayers on about 41 million occasions during fiscal year 1975. This assistance--consisting mainly of handing out tax forms, answering tax questions, and helping to complete returns--was provided over a toll-free telephone system, at Internal Revenue Service offices, and during the filing period, at temporary offices, shopping centers, and elsewhere.

GAO interviewed taxpayers visiting service locations in 1974 and found that almost all were satisfied with the help received. (See ch. 2.)

The Internal Revenue Service also helps taxpayers indirectly by

- holding classes to teach people how to prepare their own and others' tax returns and
- providing specially prepared tax publications to high schools and colleges for use in the classrooms.

The agency's information on the success of these programs is inaccurate and appears to overstate their impact on taxpayers. (See ch. 3.)

Quality assistance was the primary goal of the 1974 program. Yet, IRS did not monitor enough of its tax assistors to determine if they were providing correct information. The results of monitoring were not summarized or reported to management officials for evaluation.

GAO found that Internal Revenue Service tax assistors were not tested after

completing training to determine whether they had the knowledge necessary to provide quality assistance. Volunteer assistants trained by the agency under its Voluntary Income Tax Assistance program were not tested, nor were the returns they prepared subjected to any quality review. (See ch. 4.)

By interviewing lower income taxpayers, GAO found that:

- Only 4 percent sought Internal Revenue Service help during the 1974 filing period, although 74 percent knew its help was available.
- Eighty-six percent of the taxpayers helped by the agency generally were satisfied with the help received.
- About 58 percent of the taxpayers needed full tax return preparation. However, less than 3 percent had their tax returns prepared by the Internal Revenue Service while 43 percent paid for this service. (See ch. 5.)

Many taxpayers have a pressing need for complete return preparation, a service the agency does not promote. Alternative methods for alleviating this need include

- general simplification of the tax laws,
- expansion of Internal Revenue Service efforts to offer complete tax return preparation, and
- subsidizing taxpayers' use of commercial and professional preparers by means of a tax credit.

The tax credit alternative warrants more attention than it has received thus far.

Any significant expansion of the Internal Revenue Service taxpayer service program would require a reversal of its passive approach to complete return preparation. However, given the existence of a large tax industry which emphasizes this service, there

seems no clear justification for a strong, unilateral venture by the agency into the field. (See ch. 6.)

GAO recommends that the Commissioner of Internal Revenue:

- Test volunteer assistors to determine whether they have the basic tax knowledge needed to prepare simple returns.
- Request Internal Revenue Service-trained volunteers to identify the returns they prepare so that the quality and number of returns prepared can be determined.
- Implement the program guidelines which require the testing of assistors in taxpayer service training classes to insure that course objectives are met.
- Provide the instructions and oversight needed to insure that all walk-in assistors are monitored.
- Require summarization and reporting of monitoring efforts--specifically their extent and results--to officials at all appropriate management levels.
- Use the monitoring results to counsel, retrain, or reassign problem assistors and to improve the training and assignment of all assistors.
- Devise and implement nationally a means of collecting reliable data for determining the true impact of the taxpayer education program. (See pp. 19, 27, and 28.)

AGENCY COMMENTS AND  
GAO ANALYSIS

The Internal Revenue Service agrees with many of GAO's recommendations and has already begun to implement them. It has others under consideration. (See pp. 28 and 29.)

The Internal Revenue Service expressed the strong belief that the best solution to tax return preparation problems is simplification

of the tax laws. It opposed the tax credit on the grounds that it would further complicate return preparation and tax administration. GAO is not advocating a tax credit but believes that it is one alternative that ought to be considered if tax simplification is not achieved. (See pp. 38 and 39.)

## CHAPTER I

### INTRODUCTION

For nearly a century, excise taxes and customs duties raised revenue sufficient for the Nation's limited needs. Financial demands of the Civil War brought the first income tax. This was a temporary measure, repealed within a decade and not reinstated successfully until early in the 20th century. Today, income taxes are the principal source of Federal revenue.

The Federal income tax system makes the taxpayer responsible for determining whether he is required to file a tax return and, if so, for determining the amount owed. This requirement presents special problems for individual taxpayers, who during fiscal year 1975 provided \$156.4 billion in income tax revenues.

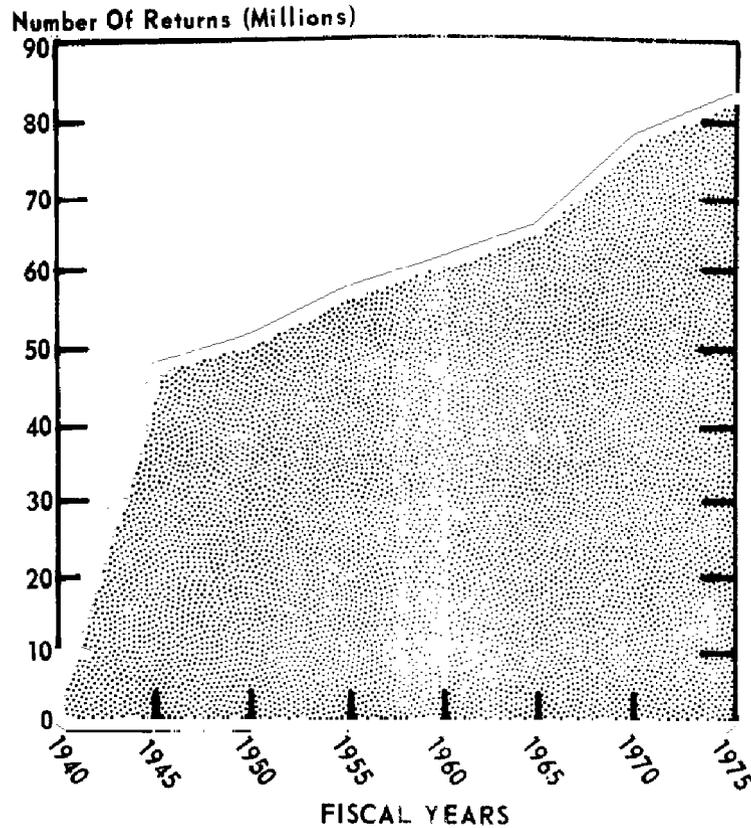
The agency responsible for administering the Federal income tax laws is the Internal Revenue Service (IRS).

#### TAXPAYERS' NEED FOR ASSISTANCE HAS GROWN

Individual taxpayers' need for assistance in preparing and filing their income tax returns has increased significantly since World War II. The increase has resulted primarily from the increased number of individuals subject to the tax and the more complex and difficult to understand tax laws. Over half of the tax returns filed in 1973 were prepared by someone other than the taxpayer. (See app. III.)

At the beginning of World War II, only 8 million individual tax returns were filed. By the end of the War, the number had increased to 48 million. The number continued to increase, reaching 84 million in 1975 as shown in the graph on the following page.

The tax return became complicated and difficult to understand as the law became more complex. This problem was highlighted by a "reading power" study of 1971 individual income tax forms and instructions funded by the Department of Health, Education, and Welfare. The study concluded that a taxpayer would have to read at the college graduate level to be able to comprehend the tax instructions without assistance.



#### ASSISTANCE PROVIDED BY IRS

The Bureau of Internal Revenue (predecessor agency of the Internal Revenue Service) was called on to provide massive taxpayer assistance in the early 1940s when a large portion of the population became subject to filing income tax returns for the first time. According to a March 1943 issue of the New York Times, a public address system was installed in a custom house in New York City so that simple information could be furnished to many taxpayers at the same time. An internal revenue representative, speaking over the public address system, requested people to station themselves at writing tables and, at his direction, to fill in the items of information required.

During the early 1950s a more formal taxpayer service program was implemented as part of IRS' audit and collection responsibilities. The program was limited primarily to the income-tax-filing period. Clerks and auditors of the IRS collection and audit divisions were called on to help taxpayers. The help given was largely in the form of providing information needed to help the taxpayers prepare their own returns, and was not in the form of individual return preparation.

Evening telephone service and extended office hours were offered in many cities. Qualified IRS speakers were provided for television and radio programs and talks before civic groups. IRS also expanded its program of tax instruction to high school students who would be taxpayers of the future.

During the period 1960-75 the IRS taxpayer service program was gradually separated from the IRS audit and collection activities. Taxpayer service was established organizationally at the national office in 1963 as a branch of the Collection Division. A separate Taxpayer Service Division was created at the national office in 1971.

The separate organizational structure at the national office brought with it full-time assistants and a year-round taxpayer service program. IRS also began to use temporary employees during the tax-filing period to reduce program reliance on technical and semitechnical employees detailed from other activities. The temporary assistants received specialized training designed to help them explain Federal tax obligations and assist taxpayers in preparing their returns.

At the district level, taxpayer service and collection activities remained combined until 1974. By August 1975 separate taxpayer service divisions had been authorized for 43 districts. Taxpayer service branches were authorized in combined Collection and Taxpayer Service Divisions for the remaining 15 districts.

Today's taxpayer service program includes

- a toll-free telephone network to provide answers to taxpayer questions,
- walk-in facilities accessible to most taxpayers who want more personalized or detailed help and make the effort to come in,
- training of volunteers who want to help taxpayers, and
- information and education for taxpayers on how to prepare their returns and obtain needed help.

ASSISTANCE PROVIDED BY  
THE TAX PREPARER INDUSTRY

There has been during the last 10 years a dramatic growth in the number of firms and individuals (professional

and commercial) who prepare income tax returns for a fee. This growth of a tax preparer industry has been caused, in part, by the gap left between taxpayers' need for help and the level of help provided by IRS. IRS has estimated that between 200,000 and 250,000 individuals and firms are engaged in the tax preparation business. Other factors have caused taxpayers to seek assistance, contributing to the growth of the tax preparer industry.

--The short Form 1040A was discontinued in 1969 and replaced by a 12-page booklet of forms, tables, and instructions because IRS believed that many taxpayers were overpaying. However, some taxpayers were apparently confused, and many who had prepared their own returns sought out a preparer. The short Form 1040A was reinstated for the 1973 filing period; however, many taxpayers continued to use return preparers.

--The return preparers' range of services includes the preparation not only of taxpayers' Federal returns but also of their State and local returns. At present, 43 States and numerous local governments (cities, counties, etc.) have imposed income taxes on residents.

The preparer industry is primarily concerned with total preparation of tax returns. Little or no effort is given to answering tax questions or otherwise providing information needed to help taxpayers prepare their own returns.

#### STUDY REQUESTED

The Joint Committee on Internal Revenue Taxation requested that we study all facets of IRS' taxpayer service program with special emphasis on adequacy of assistance provided to low-income taxpayers in preparing returns. A separate report dated June 10, 1975, was issued on IRS' telephone assistance to taxpayers, "Telephone Assistance to Taxpayers Can Be Improved" (GGD-75-69).

#### SCOPE OF REVIEW

We reviewed pertinent sections of the Internal Revenue Code; its legislative history; and the IRS policies, regulations, procedures, and practices applicable to providing taxpayer assistance. We also reviewed reports on the taxpayer service program, including its education and public

information service, made by IRS national, regional, and district personnel having taxpayer assistance responsibilities.

We made our review at IRS' national office in Washington, D.C., six regional offices, and six district offices. The districts and the areas served by the districts follow.

<u>District</u>	<u>Area served</u>
Austin, Texas	Southern half of Texas
Detroit, Michigan	Michigan
Greensboro, North Carolina	North Carolina
Omaha, Nebraska	Nebraska
Portsmouth, New Hampshire	New Hampshire
Seattle, Washington	Washington

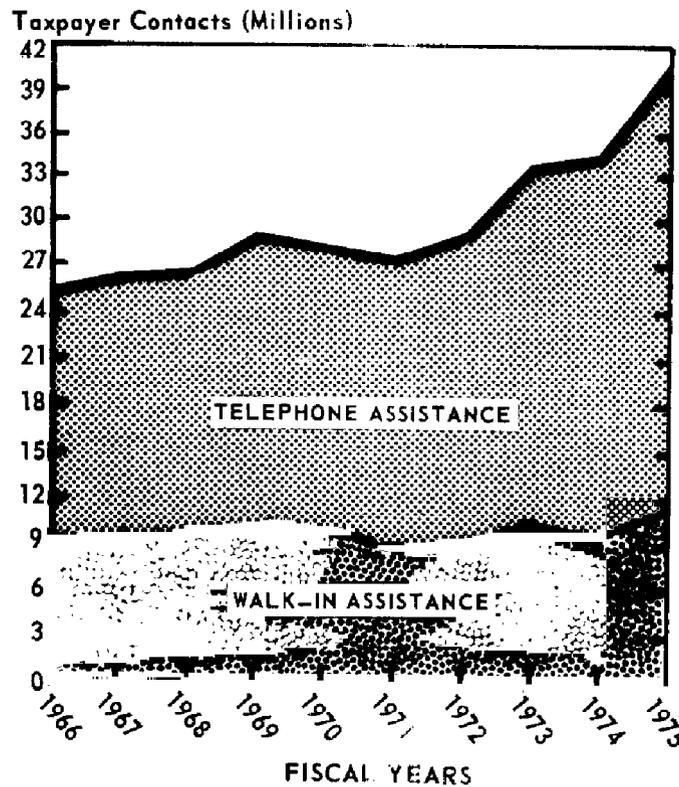
The taxpayers in these districts were typical of those nationally in the amount of their income and in their use of IRS and other third-party tax preparers. (See apps. II and III.)

During the 1974 filing period January 1 to April 15, 1974, we visited facilities in the six districts to observe taxpayer service and to interview taxpayers who had received IRS help on their returns. In addition, we contracted with a national survey organization to interview taxpayers who had 1973 adjusted gross incomes under \$10,000. The purpose of the interviews was to determine the effectiveness of the IRS taxpayer service program in reaching lower income taxpayers.

CHAPTER 2

DIRECT ASSISTANCE TO TAXPAYERS

IRS provides telephone assistance, walk-in assistance at its offices, and answers to written questions. In the last 10 fiscal years, 1966-75, taxpayer assistance contacts have grown from 25.8 million inquiries yearly to 40.5 million--an increase of 57 percent. The following chart and appendix IV show the IRS assistance during this period and the sharp increase experienced in telephone assistance over the last 3 fiscal years.



Note: Assistance through correspondence (not shown) represents less than 2 percent of total.

These contacts did not necessarily mean that IRS answered technical questions or gave direct help in preparing the taxpayers' returns. Many taxpayers come in only to pick up blank forms. Also, there are more contacts than people helped since a single taxpayer may contact IRS more than once during the year.

## MOST ASSISTANCE GIVEN OVER THE TELEPHONE

Most taxpayers who request help from IRS do so by telephone. IRS completed its centralized telephone system in time for the 1974 filing period. For the first time, taxpayers nationwide could call IRS for assistance toll free, i.e., for the price of a local telephone call. In prior years telephone service was available, but for many taxpayers it was a toll call.

About 72 percent of all inquiries in fiscal years 1974 and 1975 were by telephone. As the chart on page 6 shows, most of the increase in taxpayer inquiries during the last 4 years has occurred through telephone calls. IRS considers the telephone to be the most efficient means of providing taxpayer assistance.

Telephone assistance is obviously convenient to taxpayers because it enables them to obtain advice without leaving their homes or offices and without the bother of writing. This is of particular convenience to those unable to visit IRS office locations.

Telephone service also enables IRS to answer taxpayer questions more efficiently. According to IRS officials, about 33 percent more people can be assisted per unit of time by telephone than by in-person service at IRS offices. In the 1974 filing period, telephone contacts accounted for 71 percent of IRS' total taxpayer service contacts but involved only 55 percent of the staff-hours expended on such service.

IRS encourages taxpayers to use telephone assistance. Their public information program includes newspaper, radio, and television announcements urging people to ask tax questions by phone rather than in person.

## TAXPAYER VISITS TO IRS FOR ASSISTANCE

IRS handled over 11 million face-to-face inquiries at locations across the Nation during fiscal year 1975. IRS personnel handed out forms; answered tax questions; instructed taxpayers on how to complete their returns (self-help method); and according to IRS, prepared about 1.1 million taxpayers' returns. This was an increase over the 570,000 returns prepared in 1974.

IRS walk-in assistance is available year-round in its permanent offices. In addition, help is provided during the filing period at temporary offices, shopping centers, and elsewhere. Assistance is also provided in rented trailers,

in motorized trailer units called taxmobiles, and by visits to nursing homes and senior citizen housing developments.



Shopping mall location in Nashua, New Hampshire.

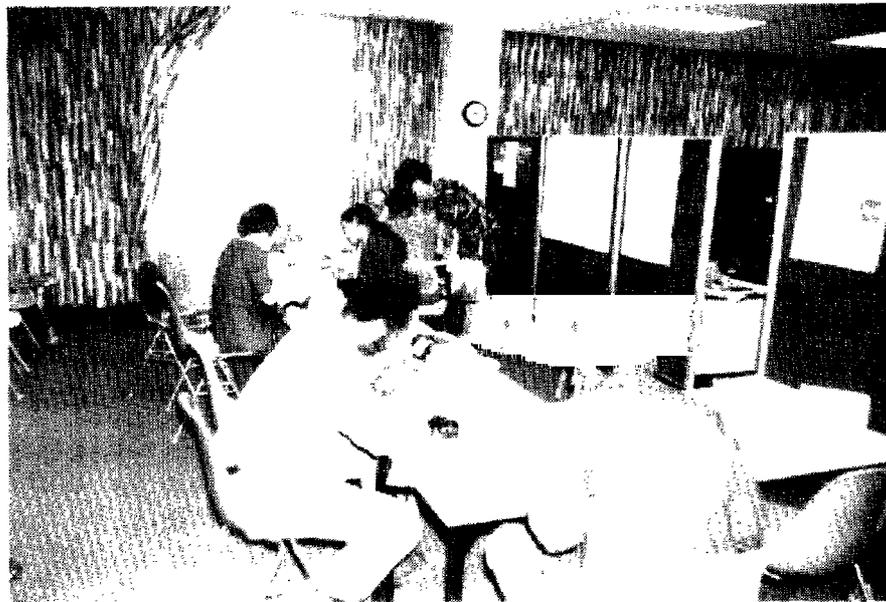
At the many walk-in locations, taxpayers receive what IRS refers to as counter service. Counter service is used to provide taxpayers with tax forms, answer tax questions, assist taxpayers in preparing returns, and in some instances to prepare their returns.

Complete preparation is not promoted and is, in fact, deemphasized. Returns are prepared only as a last resort. Those persons visiting IRS to have their returns prepared are encouraged to prepare them through the self-help method. This method involved placing one or more taxpayers at tables and having assistors available to answer the taxpayers' questions and to instruct them in the proper preparation of the return. (See pictures of counter service and self-help area on p. 9.) IRS will prepare individual income tax returns if the taxpayer cannot or is unwilling to use the self-help method and asks that the return be prepared.

If an assistor helped prepare at least half of the return through the self-help method, or actually prepared the return, it was stamped as being "prepared but not audited by IRS."



Counter Service at Seattle Washington.



Self-Help Area in Greensboro, N. C.

IRS walk-in assistance available  
at many locations

IRS taxpayer service was provided at many locations. In the six districts covered by our review, these locations were reasonably accessible to most taxpayers. Taxpayer service was available either on a full- or part-time basis at 177 different locations during the 1974 filing period.

District headquarters offices	6
Posts-of-duty locations	102
Shopping centers	9
Other temporary offices	18
Taxmobile locations	<u>42</u>
Total	<u>177</u>

Taxmobiles were used to provide assistance to taxpayers in the Portsmouth and Seattle districts. As noted above, the two taxmobiles made visits to 42 different locations during the filing period.

The taxmobile used by the Seattle district was a 30-foot mobile home. It was used to visit 13 shopping centers, 12 retirement homes, and 12 public libraries in the Seattle area one or more times during the filing period. The Portsmouth district taxmobile made 1-week visits to five communities in the rural northern sections of the district.

To determine if IRS walk-in assistance locations were reasonably accessible, we compared addresses for 8.3 million taxpayers living in the six districts with locations where IRS provided assistance.

Information was obtained on where taxpayers lived by postal ZIP code. The first three digits of the five digit ZIP code designate geographic subdivisions within a State's boundaries. The subdivisions represent either cities or "hub" cities and surrounding smaller towns and rural areas. ZIP code areas were set up to facilitate the movement of mail. They indicate basic transportation patterns and ways to reach people living in the area. We therefore believe that locating a taxpayer service office in a ZIP code area makes it accessible.

We identified 89 ZIP code areas in the 6 districts and found that at least one IRS office was located in 79 of these areas. For the remaining 10 areas, we found that:

- In 3 areas an IRS office was located about 20 miles from the principal city.
- In 3 areas an IRS office was located about 40 miles from the principal city.
- In 2 of the remaining areas a taxmobile visit was made.
- In the other 2 areas relatively few (18,000) tax returns were filed.

Even though an IRS office was located in a principal city in 79 of the 89 ZIP code areas, some taxpayers had to travel many miles to receive IRS assistance. These taxpayers generally lived in sparsely settled rural areas. We do not believe it unreasonable for IRS to concentrate its services in the more populated areas. Those living in rural areas are generally required to travel some distance for goods and services and tax assistance is no exception.

#### Taxpayers satisfied with IRS walk-in service

Taxpayers who visited IRS were generally satisfied with the help received and the convenience of the locations. We interviewed 1,323 taxpayers at 57 different locations in 6 districts as they were leaving IRS taxpayer service locations.

Almost all of these taxpayers (98 percent) were satisfied with the help they had just received. Service was generally fast--86 percent waited 10 minutes or less before being helped. Only 2 percent had to wait more than 30 minutes. All but two of the taxpayers said they were treated favorably by the person who helped them.

Most of the taxpayers interviewed (63 percent) traveled 5 miles or less to visit the IRS office. Eight traveled over 50 miles. Despite the distance traveled, most taxpayers (95 percent) said the IRS office was convenient and easy to get to--99 percent of those traveling less than a mile and 63 percent of those traveling more than 50 miles. Regardless of the distance traveled, about one-third of those coming to IRS did so without making a special trip.

About 18 percent of those taxpayers for whom IRS either prepared or helped prepare tax returns indicated they would have filed their own returns without help, if IRS help had not been available. About half said they would have gone to commercial preparers. The remainder would have sought help from a friend or someone else.

PILOT PROGRAMS FOR  
IMPROVING TAXPAYER SERVICE

Over the years IRS has tested various programs to improve assistance to taxpayers. The toll-free telephone system discussed on page 7, which has been successful in expanding taxpayer assistance, was tested as a new program during 1965-71.

Another pilot program tested with success was the inclusion of fliers including toll-free telephone service numbers with IRS computer-generated correspondence to taxpayers. This program was the result of an increasing number of complaints from taxpayers regarding their inability to contact IRS employees who could explain or resolve questions about the correspondence. These fliers were sent to taxpayers in two IRS districts during October and November 1973, inviting them to call IRS toll free if questions arose or assistance was needed. Upon introduction of the flier, calls related to computer-generated correspondence in the two districts increased approximately three times the normal volume. This program was implemented in all districts during the 1974 tax-filing period.

Another recently tested program involved the use of minicomputers. During the 1973 and 1974 filing periods, IRS tested the use of a minicomputer to prepare the short Form 1040A tax return used by many lower income taxpayers. While the taxpayer waited, IRS personnel entered the basic tax data into the computer which calculated the tax and printed a completed Form 1040A ready for the taxpayer's signature.

IRS tested the minicomputer in 4 districts during both filing periods and prepared about 9,000 returns during 1973 and over 31,000 returns during 1974. Statistics on the program revealed that most taxpayers filed their returns before they left the office and were satisfied with the service received. IRS has not yet decided whether to make minicomputers a permanent part of its taxpayer service program.

IRS also tested the concept of providing separate telephone service for Spanish-speaking taxpayers in New Mexico during the 1974 filing period to determine if a need existed for such a program.

Although, according to IRS officials, publicity was extensive, only 253 tax inquiries were received during the 60-day test period. This averaged only four calls a day, although two telephone lines and three bilingual

assistors were available to provide service. IRS concluded that special Spanish-language telephone service was not needed in New Mexico because:

- Most Spanish-speaking taxpayers were bilingual.
- Most taxpayers who needed assistance in Spanish made use of community volunteers trained by IRS.

#### CONCLUSIONS

IRS provided help to taxpayers at numerous locations which were generally accessible; that is, most taxpayers who wanted help and were willing to put forth the effort could get it. The locations, however, were by no means as convenient as commercial or professional preparer locations. Taxpayers in rural areas must travel some distance for IRS help just as they do for other goods and services. An IRS location in a city does not necessarily mean it is convenient to all of the area residents.

Telephone assistance is generally more convenient than walk-in assistance. However, it is of little use in those cases where documents need to be examined, forms need to be filled out, or the taxpayer has difficulty in explaining his problem clearly.

IRS places heavy emphasis on answering questions over the telephone. It also tries to limit walk-in assistance to helping the taxpayers prepare their returns instead of doing it for them. This type of help benefits those who know generally how to fill out the tax forms but need an explanation on how to handle one or two items being dealt with for the first time.

## CHAPTER 3

### INDIRECT ASSISTANCE TO TAXPAYERS

IRS provides indirect assistance to taxpayers through its education and public information programs, in addition to providing direct assistance through walk-in, telephone, and correspondence inquiries.

For fiscal year 1974 IRS estimated it indirectly assisted about 17 million taxpayers through its education program at a cost of \$242,000. Reportedly, the six districts in our review reached about 1.7 million of these taxpayers.

There are two facets to the taxpayer education programs.

- Classes to teach people how to prepare their own or others' tax returns.
- Specially prepared tax publications for high schools and colleges for use in classrooms.

### TAXPAYER CLASSES TAUGHT BY IRS

IRS provides instructors, materials, facilities, and the publicity for its taxpayer education classes. These classes include:

- The Volunteer Income Tax Assistance (VITA) program, which is a basic tax course to train volunteers so they can assist lower income, disadvantaged, and elderly taxpayers with their tax returns.
- Adult education classes, which provide information to individuals for their personal use, courses for owners of small businesses, courses for individuals who have lost property in natural disasters, tax clinics for youth, and preretirement counseling seminars. These programs are normally conducted by outside organizations with IRS assistance.
- Practitioner and military institutes, which train those who assist others in preparing returns. IRS considers this the most important of its educational programs, since about half of the individual returns filed are prepared by practitioners or volunteers.

The six districts we reviewed reported they sponsored 274 classes for 17,805 participants who assisted over 1 million taxpayers in fiscal year 1974.

<u>Classes</u>	<u>Number of</u>		<u>Taxpayers assisted</u>
	<u>Classes</u>	<u>Participants</u>	
VITA	81	1,715	24,970
Adult education	111	8,970	8,970
Military institutes	35	1,364	79,514
Practitioner institutes	<u>47</u>	<u>5,756</u>	<u>914,635</u>
Total	<u>274</u>	<u>17,805</u>	<u>1,028,089</u>

Volunteers taught to assist lower income taxpayers

The VITA program is of particular interest because it represents IRS' primary effort to provide special help to lower income, Spanish-speaking, and elderly taxpayers. Through VITA, people from community action groups, retirement organizations, universities, and religious groups volunteer to help taxpayers complete their returns. Volunteers attend a 2-day training seminar designed to prepare them to handle 90 percent of the questions that normally arise in assisting low-income and other disadvantaged taxpayers. When they encounter complex returns, volunteers are supposed to refer the taxpayer to IRS for assistance.

VITA enables IRS to indirectly assist taxpayers with a minimum expenditure of resources. IRS provides only the instructors and tax information materials needed to train the volunteers.

After receiving their training, the volunteers, equipped with tax forms and a VITA sign advertising free taxpayer assistance, are ready to go to work. The volunteers provide assistance in homes, community action agencies, YMCAs, town halls, senior citizen meeting rooms, and other neighborhood locations.

Since its beginning in 1969, the VITA program has continued to grow. IRS estimated that over 100,000 taxpayers were assisted in fiscal year 1970. For fiscal year 1974, 851 VITA training classes were attended by 21,055 volunteers nationwide. IRS estimated that these volunteers assisted 811,341 taxpayers.

IRS estimated that in the 6 districts, VITA volunteers assisted 24,970 taxpayers. The table on the following page shows the number of training classes, volunteers, and taxpayers assisted during fiscal year 1974.

<u>District</u>	<u>Classes</u>	<u>Volunteers</u>	<u>Taxpayers assisted</u>
Austin	21	558	15,020
Detroit	28	545	4,058
Greensboro	23	434	3,903
Omaha	3	47	675
Portsmouth	1	38	291
Seattle	<u>5</u>	<u>93</u>	<u>1,023</u>
Total	<u>81</u>	<u>1,715</u>	<u>24,970</u>

Number of taxpayers helped  
is questionable

The information compiled by IRS on the number of taxpayers helped by its education program was inaccurate and appeared to overstate its impact on taxpayers. The districts used varying methods of making estimates and did not use firm data in reporting the number of taxpayers helped.

For example, the Austin district computed the number of taxpayers assisted by obtaining estimates from course participants at the time of training. Since not all participants submitted estimates, the estimates received were averaged and then multiplied by the total number of participants to project the number of taxpayers assisted.

The Detroit district used a different method for each type of class. The number of class participants was used as the number of taxpayers assisted by its practitioners institutes, while the estimate used for its military institute was provided by the officer in charge. District officials did not know the basis for the officer's estimate. For its VITA classes, district officials contacted some of the participants to obtain an estimate of the number of taxpayers each had assisted. The total of these estimates was then used as the number of taxpayers assisted.

Seattle made especially unrealistic projections. Officials there assumed that each participant in its military institute course assisted 10 taxpayers, that participants in the practitioners institute prepared 5 returns a day throughout the filing period, and that each VITA volunteer assisted at least 10 taxpayers. The district had no information to support these figures.

That inaccuracies can result from this method is shown by the fact that 22 VITA volunteers in the Seattle district reported that they assisted no more than a total of 40 people rather than the 220 people reported by the district. The Seattle district assumed that all practitioners who attended

IRS-sponsored institutes would prepare returns for 375 taxpayers during the filing period. This assumption may have resulted in an overstatement of taxpayers helped by as many as 100,000.

#### EDUCATIONAL MATERIALS PROVIDED TO SCHOOLS

In addition to holding educational classes, IRS sends educational materials, including instructor guides, to high schools and colleges for use in the classroom. These materials, provided free to all schools that request them, are designed to train future taxpayers to prepare their own returns or to provide adequate instruction to new tax return preparers.

The following publications are provided to schools.

Understanding Taxes, designed for use in high school business, mathematics, social studies, and vocational education classes. Topics covered include why we have taxes, taxes and the Federal Budget, how income tax laws affect students, and preparation of 1040 and 1040A individual tax returns.

Fundamentals of Tax Preparation, a college-level publication designed to provide instruction to new or relatively inexperienced tax preparers. Subject matter includes instruction on the preparation of individual and business tax returns and employment taxes and on the professional duties and responsibilities of a tax preparer.

Teaching Business Taxes, provides college students taking fundamental accounting and/or business classes an understanding of the importance of taxes in the operation of a business. The course trains students to properly prepare and file small business tax returns. This publication was discontinued in 1975 and its content was incorporated in Fundamentals of Tax Preparation.

The number of publications sent by the six districts to schools and colleges was counted as taxpayers assisted as follows:

<u>Publications</u>	<u>Number of</u>		<u>Taxpayers assisted</u>
	<u>Schools</u>	<u>Publications</u>	
Understanding Taxes	3,430	692,889	692,889
Fundamentals of Tax Preparation	137	6,083	6,083
Teaching Business Taxes	<u>98</u>	<u>6,061</u>	<u>6,061</u>
Total	<u>3,665</u>	<u>705,033</u>	<u>705,033</u>

We contacted 116 school officials to determine whether the materials were being used. One hundred ten said that the material was obtained for classroom use. Another two officials said that the material was displayed in the library, one indicated the material was obtained for personal use of the teachers, and three officials said the material was not used. The officials that used the material said it was very good and very helpful.

ASSISTANCE PROVIDED THROUGH PUBLIC INFORMATION PROGRAMS

IRS' public information programs, estimated to cost about \$3 million annually, include

- news and audio/visual releases to mass media;
- speaking engagements before professional, civic, and other groups by IRS personnel;
- spot announcements and interviews on radio and film spots and interviews on television;
- answers to tax questions carried in newspapers across the Nation; and
- tax information films distributed to theaters, television stations, and civic organizations.

Materials for the program are developed by the national office and sent to the districts for their use. The districts supplement the national office material with items of local interest. In addition to news releases by district offices, the national office also issues public information materials directly to the media.

Each district office prepared its own publicity package for the taxpayer service program and included materials furnished by the national office. These materials included

scripts for taped radio and television spot announcements, ads for magazines and newspapers, films, cartoons depicting facts about filing tax returns, news releases, and items for tax practitioners' newsletters.

### CONCLUSION

Education and public information programs are potentially valuable tools in helping taxpayers understand and carry out their tax-filing obligations. However, these tools are of value only if they are effective; that is, if they are received and understood by the taxpayers who need the help.

Education programs are susceptible to objective evaluation, but accurate information on effectiveness is not available. These programs obviously result in helping some taxpayers, but IRS does not reasonably assess their effectiveness or determine how many taxpayers are actually helped.

In our opinion, management needs reliable data to help it determine what changes, if any, are needed to improve education programs. We recognize that firm data is not always reasonably available and that estimates must be used; however, such estimates should be uniformly arrived at by all districts and based on reasonable criteria.

### RECOMMENDATION TO THE COMMISSIONER OF INTERNAL REVENUE

We recommend that IRS devise and implement nationally a means of collecting reliable data for determining the true impact of the taxpayer education program.

## CHAPTER 4

### IRS EFFORTS TO INSURE

#### QUALITY ASSISTANCE TO TAXPAYERS

One of IRS' main goals is quality service to taxpayers. Quality service is defined as timely, accurate, and courteous answers to taxpayers' inquiries and solutions to their tax problems. To help insure meeting this goal, IRS program guidelines provided for (1) training and testing all employees assigned to assist taxpayers to insure that all possessed an acceptable skill level and (2) monitoring the assistance provided to insure high-quality service. Assistors generally received the required training; however, monitoring efforts were inadequate to assure that the quality of service desired was provided.

Volunteers under the VITA program were not tested when they completed their classroom training; and the returns they prepared were not checked for quality. The impact of the VITA program on lower income, elderly, and Spanish-speaking taxpayers is unknown because of inaccurate reporting of returns prepared.

#### TRAINING OF EMPLOYEES USED IN THE TAXPAYER SERVICE PROGRAM

Each year the IRS national office issues guidelines to the regions and districts for implementing the taxpayer service program. The 1974 and 1975 guidelines emphasized training programs as a means of insuring the competency of IRS' assistors.

The six districts reviewed handled over 2.9 million taxpayer inquiries during the 1974 tax-filing period. To provide this assistance, 1,320 employees were assigned to work either full or part time in the taxpayer service program. However, as shown below, only 911 received the training specified by the national office guidelines. There were 409 employees who did not receive the specified training.

<u>Job classification</u>	<u>Number of employees</u>	<u>Number trained</u>
Taxpayer service representative - permanent	248	240
Taxpayer service representative - temporary	169	163
Revenue officer	209	105
Revenue agent	487	334
Tax auditor	137	49
Other classifications	<u>70</u>	<u>20</u>
Total	<u>1,320</u>	<u>911</u>

The impact that untrained employees had on the quality of assistance was minimal because they worked only 19,780 hours (6.5 percent) of the 304,918 hours that were charged to taxpayer assistance in the six districts. Furthermore, the 409 employees included 241 tax auditors who had previously received extensive tax training and 33 revenue officers who had 2 weeks' taxpayer service training added to their regular training. Some of the employees, including those already mentioned, worked less than 16 hours in the program or were program managers who normally did not provide taxpayer assistance.

District officials told us that the primary reasons for personnel working in the program without the benefit of training were (1) many taxpayer service representatives were ill with the flu and had to be replaced for short periods by personnel who had not been trained, (2) absenteeism in general, and (3) more taxpayer inquiries were received than expected.

#### SKILL LEVEL OF ASSISTORS NOT DETERMINED

National office guidelines indicated that employees should be tested to determine if they had acceptable skill levels. Through such testing, IRS would have information to determine whether assistors had the basic tax knowledge needed to provide the high quality of assistance desired. Another benefit to be gained from testing would be identification of weaknesses in the training program and materials.

Officials in five of the six districts stated that assistors were not tested on their tax knowledge. In the remaining district, officials said that testing varied with the instructor. Results of these tests were neither maintained nor evaluated to determine assistors' capabilities to provide quality service.

The need for testing of assistors is supported by the results of sample test telephone calls placed by IRS internal auditors and national office taxpayer service personnel, and the results of in-person visits made by internal auditors.

During the 1974 tax-filing season, IRS internal auditors asked 1,687 tax questions of assistors--1,157 through telephone calls and 530 by visits to IRS offices--and received 324 incorrect responses, for a 19-percent error rate. The national office taxpayer service personnel received 83 incorrect responses (18 percent) to 457 tax questions asked.

The inquiries indicated that assistors had specific weaknesses in certain areas of the tax laws, which could have been identified prior to the filing period through testing. For example, the internal auditors received an incorrect response 60 percent of the time to a question on casualty loss which was asked 106 times. A question on moving expense was missed 42 percent of the 88 times it was asked, while a question on filing requirements for self-employed students was missed 24 percent of the time. These and other questions asked were approved by the Taxpayer Service Division as being a fair test of the assistors' capabilities.

Tax assistors divided on  
adequacy of training received

To obtain opinions of the quality of the training courses, we interviewed 82 assistors who had received taxpayer service training and had participated in the 1974 program. Included were 34 taxpayer service representatives, 18 temporary taxpayer service representatives, 17 revenue agents, 6 revenue agent trainees, and 7 revenue officers. Results of our interviews are shown below.

<u>Comment</u>	<u>Number</u>	<u>Percent</u>
Training was considered adequate	37	45.1
Training was considered inadequate	33	40.2
Training was repetitious of revenue agent training	8	9.8
Training was good but too short	<u>4</u>	<u>4.9</u>
Total	<u>82</u>	<u>100.0</u>

Twenty-three of the 33 assistors who indicated that training was inadequate were taxpayer service representatives. Most of these employees suggested lengthening the technical training aspects of the course and having instructors proceed at a slower pace. They also stated that refresher training had frequent class disruptions due to

different classifications of employees with varying backgrounds and experience being assigned to the same class.

MONITORING PERFORMANCE  
OF TELEPHONE ASSISTORS

Most taxpayers who requested help on their Federal tax questions did so by telephone. The toll-free telephone system, completed just prior to the 1974 filing period, enabled IRS to provide all taxpayers in the Nation toll-free access to IRS assistance, a feature of particular benefit to taxpayers in rural areas.

To help insure that IRS' goal of quality service was met, the program guidelines provided for monitoring, on a regular basis, assistors' responses to incoming calls at telephone centers. Shortcomings in IRS' efforts to control the quality of assistance given over the telephone and the corrective actions taken by IRS are discussed in our report, "Telephone Assistance to Taxpayers Can Be Improved" (GGD-75-69, June 10, 1975).

The report pointed out that to adequately assess and control the quality of telephone assistance to taxpayers, IRS needs to improve its monitoring of telephone assistors and use more effectively the evaluative information monitoring can provide.

The monitoring was inadequate because IRS' program guidelines did not (1) specify the amount of monitoring districts were to provide, (2) point out the importance of early monitoring, and (3) require that monitoring results be summarized and reported to management officials.

Proposals made to IRS

On December 5, 1974, we briefed IRS on our findings and conclusions so that corrective actions could be taken for the 1975 filing season. At the briefing, we proposed that IRS revise its program guidelines to

- explicitly require monitoring of all telephone assistors,
- specify factors for managers to consider in determining the frequency of monitoring, and
- emphasize monitoring in the early weeks of the filing period.

We further proposed that IRS

- develop, for use by all monitors, a uniform form or report listing all important factors to be considered in evaluating an assistor's performance and
- require centers to summarize the extent and results of monitoring efforts and report them to appropriate management officials.

The Commissioner of Internal Revenue, by letter dated April 3, 1975, said that IRS agreed with our findings and proposals and that it had taken action to correct the program deficiencies outlined.

On December 13 and 16, 1974, IRS issued instructions to regional and district offices requiring them to install evaluation and monitoring systems as a basis for improving telephone service. These instructions provided the districts with a sample worksheet for recording the monitoring results. Those results were to be used for program analysis and employee feedback. Further, the regions and districts were instructed that, as a minimum,

- quality control procedures should be implemented on the first day of the 1975 filing period,
- frequency of monitoring should be based on a reasonable sampling system with all telephone inquiries subject to sampling,
- sufficient direct staff-hours (approximately 3 to 5 percent) should be devoted to quality assurance procedures, and
- monitoring records should be maintained for regional and national office review.

We did not follow up implementation of these IRS actions, but we did note that, according to IRS statistics, tax assistors continued to give a high percentage of wrong answers to test questions during the 1975 filing season. Answers given by the various districts to test questions asked over the telephone were incorrect 15 to 25 percent of the time. Monitoring of answers given over the telephone to taxpayers showed that 4 to 10 percent were incorrect.

MONITORING OF ASSISTORS WHO HELP  
WALK-IN TAXPAYERS

IRS' 1974 and 1975 program guidelines provided that employees assigned to help taxpayers in the walk-in areas should be monitored as a means of insuring quality assistance. A summary of such monitoring of the six districts reviewed follows.

<u>IRS district</u>	<u>Total assistors</u>	<u>Monitored</u>	<u>Not monitored</u>	<u>No data (note a)</u>
Austin	182	49	42	91
Detroit	257	19	60	178
Greensboro	189	115	22	52
Omaha	87	36	51	-
Portsmouth	36	36	-	-
Seattle	<u>39</u>	<u>39</u>	<u>-</u>	<u>-</u>
Total	<u>790</u>	<u>294</u>	<u>175</u>	<u>321</u>

a/Local program supervisors monitored walk-in assistance at district offices. Data on the extent and results of monitoring was not summarized and reported to district headquarters offices.

Monitoring results not reported to district, regional, or national offices

The 1974 and 1975 guidelines made no provision for summarizing and reporting the results of monitoring to the district, regional, or headquarters offices. As a result, three of the six districts--Austin, Detroit, and Greensboro--did not receive certain basic information on the monitoring activities of their local offices; namely

- the number and percentage of assistors monitored,
- the error rate found in assistor responses to taxpayer inquiries, or
- the type of errors disclosed.

Portsmouth and Detroit were the only districts reviewed which had a plan for monitoring tax assistors. Detroit fell considerably short of its scheduled coverage. The local program coordinators in Detroit were to monitor each assistor on walk-in service at least once a week. This schedule was not followed. At three local offices, only 19 tax assistors were monitored a total of 46 times. If the monitoring schedule had been followed, 70 assistors would have been monitored a

total of 1,185 times. All Portsmouth district assistors were monitored but not as frequently as planned.

#### QUALITY OF VOLUNTEER ASSISTANCE IS UNKNOWN

IRS has limited information available to evaluate how effective the VITA program is in assisting taxpayers. IRS does not know the quality of assistance provided by the volunteers or to what extent lower income taxpayers are actually being helped. This information is important since the VITA program is IRS' primary effort directed toward helping lower income taxpayers in neighborhood locations.

No qualifications have to be met to become a VITA volunteer. Anyone interested may participate in the program. In fact, an IRS training official was of the opinion that any literate person can read the training materials and prepare himself to help others complete a 1040A or a simple 1040 tax return. VITA volunteers are not tested after completing the 2-day training to determine whether basic tax knowledge has been acquired.

District officials did not have data on the quality of assistance the volunteers were providing, whether lower income and elderly taxpayers were being helped, or whether services were provided free, as intended by the program. Also, as discussed on page 16, estimates of the numbers of taxpayers assisted was generally inaccurate.

#### CONCLUSIONS

Training should be adequate to insure that tax assistors provide the quality of service IRS desires. One means of insuring that tax assistors have the knowledge necessary to provide this quality of assistance is through testing. This is especially true for taxpayer service representatives who handle most taxpayer inquiries and for volunteers whose background experience is not necessarily in taxes.

Testing would provide IRS with information on those areas which give IRS and the volunteers the most difficulty and would permit IRS to make more effective adjustments to its training program. The test results could be used to

--improve training classes and the training material used,

--identify specific areas of performance needing attention during on-the-job training, and

--determine what duties each assistor is qualified to handle.

The monitoring of IRS taxpayer assistors was not adequate to insure that they were providing quality service. As a result, management lacked information necessary to determine the quality of service provided by the fiscal year 1974 taxpayer service program.

Proposals to improve IRS monitoring of telephone assistors were presented in our report on telephone assistance along with IRS proposals to take corrective actions. However, to adequately assess and control the quality of assistance to taxpayers, IRS also needs to improve its monitoring of assistors who help walk-in taxpayers and to make more effective use of the evaluative information provided.

IRS can improve quality of assistance by insuring that all assistors are monitored to permit a valid assessment of the general level of their performance. However, to obtain the proper benefit, IRS must insure that management at all levels is apprised of the extent and results of monitoring activities. Unless it has this knowledge, management cannot adequately assess the quality of service being provided or the adequacy of IRS quality control.

IRS does not know the quality or number of returns being prepared through the VITA program or whether lower income, elderly, and Spanish-speaking taxpayers are the ones actually being assisted. This type of information is necessary before the effectiveness of the program can be determined. One means of getting this information is to have the volunteers place the letters "VITA" on that portion of the return reserved for the signature of tax return preparers other than the taxpayer. Returns so identified can be checked for accuracy, income level, and other characteristics indicating whether the VITA program is meeting its objectives.

#### RECOMMENDATIONS TO THE COMMISSIONER OF INTERNAL REVENUE

We recommend that IRS fully implement its program guidelines which require the testing of assistors in taxpayer service training classes to insure that course objectives are met.

We also recommend that IRS

- provide the instructions and oversight needed to insure that all walk-in assistors are monitored,
- require summarization and reporting of monitoring efforts--specifically their extent and results--to officials at all appropriate management levels,
- use the monitoring results to counsel, retrain, or reassign problem assistors, and to improve the training and assignment of all assistors,
- test VITA volunteers to determine whether they have the basic tax knowledge needed to prepare simple returns, and
- request VITA volunteers to identify the returns they prepare so that IRS can determine the quality and number of returns prepared.

#### AGENCY COMMENTS

The Commissioner of Internal Revenue, by letter of March 11, 1976, commented on a draft of this report. He said our analysis appeared to be fair and complete and to reflect the progress IRS has made in fulfilling its mission to the taxpaying public. IRS agrees with many of the report's recommendations and has already begun to implement them, and it will carefully consider the others. (See app. VIII.)

We later contacted IRS officials to determine what corrective actions had been taken. We were told instructions had been issued which provided that those attending "Taxpayer Service Refresher Tax Law Program" training classes be pretested so the course can be tailored to the students needs. Students are also supposed to be tested upon completion of the course. Taxpayer service managers may use post-test results to determine employee work assignments and the possible need for additional on-the-job training. Pre- and post-test evaluations are required to be sent to district, regional, and national training offices.

We were also told that testing requirements were made a part of their "Basic Course for Taxpayer Service Representatives" and were being considered for the "Advance Course for Taxpayer Service Representatives" and "Taxpayer Service Specialist Training Course."

Manual changes have also been made to improve the quality of taxpayer assistance through increased emphasis on monitoring. Scientific sampling procedures were established for monitoring telephone and return preparation assistance. Further, a series of report forms have been created for recording and summarizing the results of the monitoring and review activities. IRS has advised its regional and district offices that problems identified through these quality review procedures should be corrected by individual counseling and improved training.

These actions, if successfully implemented, should improve the quality of assistance. However, we found that program guidelines are not always fully implemented at the district level. IRS headquarters, therefore, must provide sufficient oversight to insure that its instructions are followed.

With respect to VITA volunteers, IRS still has under consideration our recommendations that they be tested and that they be asked to identify the returns they prepare.

## CHAPTER 5

### IRS ASSISTANCE TO

#### LOWER INCOME TAXPAYERS

Concern has been expressed that lower income taxpayers may not be getting the help they need to prepare their income tax returns. This concern is present because many of these taxpayers are considered to be less able to deal with the complex tax laws and generally less able to afford commercial or professional help.

The IRS taxpayer service program, with only minor exceptions, is directed at all taxpayers and does not focus on lower income or other special groups. The extent that lower income taxpayers use IRS' help is unknown because IRS keeps no record on the income levels of those it does help.

#### INTERVIEWS WITH LOWER INCOME TAXPAYERS

We had taxpayers in six geographic areas interviewed to determine the effectiveness of IRS' taxpayer service program in reaching lower income taxpayers. The interviews were conducted by a national survey organization in the cities of Detroit, Omaha, San Antonio, and Seattle. The organization also interviewed rural and smaller urban area taxpayers in sections of New Hampshire and North Carolina.

The 1,679 taxpayers interviewed were randomly selected from over 713,000 taxpayers who filed 1973 tax returns with adjusted incomes between \$2,000 and \$10,000. Those with incomes under \$2,000 were excluded from the sample to avoid the selection of students or other part-time employees who were not primary wage earners in their households. One-third of the sample was taken from tax returns signed as prepared by IRS, one-third was taken from those signed by preparers other than the taxpayer, and one-third was taken from returns signed only by the taxpayer. Approximately the same number of taxpayers were interviewed in each of the six areas. (See app. VII.)

Because of our interest in taxpayers who have used IRS assistance in preparing their Federal tax returns, we sampled this group more heavily in proportion to its population than the other two groups. We made a statistical correction for this nonproportional sampling whenever we estimated characteristics of the population. The six areas sampled were not randomly selected. Therefore, the results of the interviews cannot be projected nationally.

Few ask IRS for help

Although 74 percent of the lower income taxpayer population knew that IRS help was available, only 4 percent sought help during the 1974 filing period. An additional 12 percent said they had received IRS help sometime during the past 5 years.

Reasons for not going to IRS

The reasons given by the taxpayers who did not go to IRS for help are listed below.

<u>Reason</u>	<u>Weighted percent</u>
Believed I could do it myself	25
I didn't know how to go about getting IRS help	18
A friend or relative helped me	14
I didn't (couldn't) take the time	7
Commercial or other paid preparer will give me a better break	6
IRS location(s) not convenient	6
Not sure IRS would give be the best break	3
I don't trust IRS	2
IRS office(s) too crowded	2
I put it off too long	2
Other	<u>15</u>
	<u>100</u>

How those who used IRS found out about it

The 646 taxpayers interviewed who had used IRS services were initially asked how they learned that IRS would help them. This response was recorded and then the interviewees were asked to examine a list of six ways that they might have learned of IRS help and whether they might also have heard about IRS assistance from any of these sources.

The most frequent response, prior to examination of the list, was that someone had told them that IRS would help prepare their return. After examining the list, they usually mentioned newspapers, radio, or television as ways they heard about IRS help.

<u>Way learned</u>	<u>Number of respondents</u>		<u>Total</u>
	<u>Major way</u>	<u>Other ways</u>	
Someone told me	273	85	358
Radio or television	84	131	215
Newspapers	44	94	138
IRS tax instruction	28	67	95
Called IRS once and got help	24	62	86
Noticed IRS office	32	30	62
Don't remember	99	27	126
Other	56	26	82
No answer	6	-	6

IRS tried to tell taxpayers that help was available by placing an information notice on the cover of the tax package sent to the taxpayers. However, success was minimal. Relatively few of the taxpayers surveyed said that the tax package notice was one of the ways they knew help was available. The notice was buried in the third paragraph of the Commissioner's transmittal message for both the 1973 (app. V) and 1974 tax packages. The notice appears in the fifth paragraph of the transmittal message for the 1975 tax package (app. VI). Notice of toll-free telephone assistance was also provided on the cover of the tax package. However, this notice was among a list of other highlighted items and could easily have been missed.

IRS locations were apparently not visible to surveyed taxpayers since few mentioned this as being a reason they knew help was available.

#### Taxpayer reactions to IRS assistance

Overall, 86 percent of the taxpayers using IRS walk-in assistance were satisfied with the help received.

<u>Satisfaction level</u>	<u>Percent</u>
Very satisfied	61
Somewhat satisfied	25
No opinion	1
Somewhat dissatisfied	6
Very dissatisfied	7

To determine how taxpayers viewed IRS assistance compared to that of paid preparers, they were asked to give their opinion of whether IRS or a commercial preparer would do better on a list of key service elements. The responses showed that most of those who used IRS help believed that IRS would serve them best; those that paid for help generally

believed that the paid preparers were best; and taxpayers who prepared their own returns viewed IRS to be best in four categories, considered paid preparers to be best in four categories, and found no difference between IRS and paid preparers in the area of privacy.

<u>Who would do better in the following areas?</u>	<u>Responses by those whose returns were prepared by</u>		
	<u>IRS</u>	<u>Paid preparers</u>	<u>Taxpayer</u>
Advice on tax deductions and allowances	IRS	Paid	IRS
Courtesy	IRS	Paid	Paid
Privacy	IRS	Paid	No difference
Waiting time	IRS	Paid	Paid
Easier to get to	IRS	Paid	Paid
Ability to explain things in a way you understand	IRS	Paid	IRS
Keeping your interest in mind	IRS	Paid	Paid
Saving you the most money	IRS	Paid	IRS
Trust	IRS	Paid	IRS

When the overall results were weighted to correct for sample size (including the opinions of those who did their own returns), IRS was considered to be better than commercial preparers for advice on tax deductions and allowances, as well as for being the most trusted. Paid preparers were considered the best in the other areas.

To determine whether lack of trust in IRS might be a factor in who prepared their returns, those taxpayers who did not use IRS help in 1974 were asked why they did not. Only 9 percent indicated that they were not sure that IRS would give them the best advice. Another 2 percent said they did not trust IRS.

#### Few prepare their own returns

Only 30 percent of the taxpayers said they usually prepared their returns without help. The rest did their own returns with help (12 percent) or had someone else prepare their returns (58 percent). A clear majority of those who needed help paid for it.

<u>How Federal tax return usually prepared</u>	<u>Percent</u>
Self without help (except spouse)	30
Self with help	
from friend or relative	11
from IRS	<u>1</u> 12
Someone else prepared it	
paid preparer	43
friend or relative	11
IRS	3
volunteer service	<u>1</u> <u>58</u>
	<u>100</u>

Our survey also disclosed that 58 percent of the taxpayers needed help with their State tax returns and that a majority paid for that help.

During the interview taxpayers became more fully aware of the services available from IRS and how to go about getting them. Near the end of the interview, the taxpayers were asked how they would prepare their returns next year. Their answers indicated that, if taxpayers were better informed about IRS services, 10 percent would go to IRS for help and that nearly all of them would seek full return preparation.

Telephone assistance does not meet all needs

In 1974 IRS expanded its toll-free telephone system to all taxpayers in the Nation. Because of the dispersion of taxpayers over large areas, toll-free telephone service offered lower income taxpayers a relatively convenient and inexpensive means of obtaining assistance.

The toll-free telephone system, however, does not provide all the assistance needed by lower income taxpayers in the areas surveyed--only 53 percent believed that IRS could provide the help they needed over the telephone. The telephone assistance was not considered adequate mainly because

--the help needed was too complicated for a telephone answer and

--the taxpayer could not explain the help needed without showing tax records.

Only eight taxpayers indicated the reason IRS could not provide the help needed was because a telephone was too difficult to get to.

## CONCLUSIONS

Lower income taxpayers find that preparing their income tax returns is difficult. As a result, 66 percent either pay for the help needed or depend heavily on friends and relatives. IRS help is obtained only about 4 percent of the time.

Our interviews disclosed no clear reason why so few people sought help from IRS. Eighty-six percent of the people using the help provided were satisfied and there was no appreciable distrust of IRS by those who did not. Also, people were generally aware that assistance could be obtained, 74 percent answering in the affirmative.

We think one likely reason that many taxpayers don't go to IRS is that full return preparation (a service not promoted by IRS) is needed. This is true for all taxpayers, not just the lower income group. Another possible reason is that most taxpayers also file State tax returns with which they also need help. It may be that the taxpayers prefer to have all of their returns prepared by the same person.

## CHAPTER 6

### COMPLETE RETURN PREPARATION

Up to this point, we have been primarily concerned with how--and how well--the IRS taxpayer service program functions. As we made our review, we also gave some thought to whether the program in its broadest outline was making a reasonable response to the needs of the taxpayers.

The program as it stands is designed to help the taxpayers file their returns by answering questions, clarifying the law, and explaining filing requirements. Generally, IRS has made a reasonable effort to meet these needs.

But IRS does not, as a matter of policy, encourage taxpayers to come to IRS for complete return preparation. This is confirmed by the fact that IRS prepared only 1.3 percent of the 1974 individual income tax returns.

In contrast, the pressing need for many taxpayers is complete return preparation. As the law becomes more complicated, the number unable to prepare their own returns is increasing. Perhaps many believe it is unwise to spend the time necessary to familiarize themselves with the Internal Revenue Code each year merely to prepare their own returns.

If IRS was the only organized source of assistance available, there would be an overwhelming argument for a greatly expanded taxpayer assistance program that featured complete return preparation. IRS is not, of course, the only source of such assistance. The growth of the tax return preparation industry in recent years has helped fill the gap between the taxpayers' need for complete return preparation and the more limited services offered by IRS.

For this reason, it is likely that any substantial increase in return preparation activity by IRS would, to some extent, simply supplant assistance which is already being provided by professional and commercial preparers.

Also there is a question of whether IRS could, as a practical matter, provide service equal to that of the professional and commercial preparers which are, collectively, more conveniently located, better able to deal with the seasonal nature of tax assistance, and more adept at advertising the availability of their services. The hiring and training of a sufficient number of part-time seasonal employees to work irregular hours and the obtaining of short-term leases at specific locations would present problems

for IRS because of Civil Service and General Services Administration procedures.

Finally, there is the cost. Some idea of what it would cost IRS can be had by reference to the experience of the largest commercial tax preparer firm. This firm prepared 10 percent of the individual taxpayer returns in 1974 at a cost of \$69 million.

It is not necessary, however, to restructure and expand the IRS taxpayer assistance program in order to assist the taxpayer with complete return preparation. The issue after all is assistance, not who provides it. In this connection, we find it surprising that there has been so little discussion of financial assistance in the form of a tax credit.

#### TAX CREDIT

Taxpayers who pay for assistance may obtain some relief by taking the cost as an allowable deduction if they submit an itemized return. Under these circumstances, the cost is shared by the Federal Government in the same percentage that the upper portion of his income is taxed. That could be as much as 70 percent and as little as 14 percent. Those taxpayers who pay no tax and those who do not itemize deductions must bear the total cost of having their returns prepared.

Financial assistance could be made available to all taxpayers if a tax credit were given for all or a portion of their return preparation cost. For example a flat dollar amount sufficient to cover the cost of preparing an elementary tax return could be established as a tax credit for those who pay that amount or more to have their return prepared. The taxpayers could have the option of using the tax credit or itemizing the actual preparation cost.

The establishment of such a tax credit would extend federally supported assistance to those who do not seek Government help because they believe IRS may not look out for their best interests, to those who find IRS locations inconvenient, and to those who must, as a practical matter, go to a commercial or professional preparer anyway because they need to have their State tax returns prepared.

A tax credit for preparer fees paid would, of course, reduce tax revenues. For example, a \$10 maximum credit could theoretically affect 82 million individual tax returns and reduce tax revenues by \$820 million. We know, however, that many taxpayers itemize their deductions, including

tax preparation costs, and many would continue to do so because it would be more advantageous than taking the tax credit. We also know that many taxpayers would continue to prepare their own returns.

The use of a tax credit would also further complicate tax instructions and tax return forms--an aggravation of the problem it is meant to relieve.

These considerations notwithstanding, we believe that the tax credit idea warrants more attention than it has received thus far. It focuses directly on the problem of the lower income taxpayer who has difficulty in preparing his own return and who is less able to pay to have it done. It offers some advantages over wholesale return preparation by IRS. And, it lies somewhere between the extremes of maintaining the status quo and a significant simplification of the tax law.

#### CONCLUSION

Any significant expansion in the scope of the IRS taxpayer service program would require a reversal of its passive approach to complete return preparation. However, given the existence of a large tax industry which emphasizes this service, there seems no clear justification for a strong, unilateral venture by IRS into the field.

The final judgment as to whether the Federal Government ought to do more to assist the taxpayer in filing his return must, as a practical matter, be made by the Congress. Assistance through tax law simplification or a tax credit would require direct congressional action. Active IRS competition with the existing tax industry for complete return preparation business would be a matter of public policy, warranting congressional consideration through the oversight and appropriation process.

#### AGENCY COMMENTS

The Commissioner of Internal Revenue, in commenting on a draft of this report, said:

"\* \* \* we do not agree with the recommendation relating to the tax credit for preparer fees. We believe that such a provision of law would merely add complexity to an already overly complex law and further complicate the tasks of return preparation and tax administration. IRS

strongly believes the best course of action is to simplify the tax laws."

(See app. VIII)

The tax credit for preparer fees is not presented by us as a recommendation but as an alternative which warrants more attention than it has received thus far. Tax law simplification, which is also recognized in this report as an alternative, may or may not come to pass. If it does not and if the belief persists and grows that more should be done to assist taxpayers in preparing their returns, the idea of a tax credit ought not be ignored.

NUMBER OF INDIVIDUAL TAX RETURNS FILED  
AND AMOUNT OF COLLECTIONS  
FISCAL YEARS 1940 TO 1975

<u>Fiscal year</u>	<u>Individual tax returns</u>	<u>Collections</u>		<u>Percent of total collection</u>
		<u>Individual returns</u>	<u>Total</u>	
(000 omitted)				
1940	7,913,862	\$ 982,017	5,340,452	18.4
1941	14,877,544	1,417,655	7,370,108	19.2
1942	26,369,044	3,262,800	13,047,859	25.0
1943	37,075,649	6,629,932	22,371,386	29.6
1944	43,069,031	18,261,005	40,121,760	45.5
1945	48,370,226	19,034,313	43,800,388	43.5
1946	46,546,696	18,704,536	40,672,097	46.0
1947	54,369,777	19,343,297	39,108,386	49.5
1948	54,984,219	20,997,781	41,864,542	50.2
1949	53,337,905	18,051,822	40,463,125	44.6
1950	51,876,752	17,153,308	38,957,132	44.0
1951	52,457,971	22,997,309	50,445,686	45.6
1952	54,680,646	29,274,107	65,009,586	45.0
1953	58,641,000	32,536,217	69,686,585	46.7
1954	58,673,000	32,813,691	69,919,991	46.9
1955	57,610,000	31,650,106	66,288,692	47.7
1956	57,941,000	35,337,642	75,112,649	47.0
1957	59,427,000	39,029,772	80,171,971	48.7
1958	60,006,780	38,568,559	79,978,476	48.2
1959	59,184,730	40,734,744	79,797,973	51.0
1960	60,456,140	44,945,711	91,774,803	49.0
1961	61,267,560	46,153,001	94,401,086	48.9
1962	61,566,282	50,649,594	99,440,839	50.9
1963	62,859,213	52,987,581	105,925,395	50.0
1964	64,292,895	54,590,354	112,260,257	48.6
1965	66,042,621	53,660,683	114,434,634	46.9
1966	68,746,743	61,297,552	128,879,961	47.6
1967	71,193,825	69,370,595	148,374,815	46.8
1968	72,793,517	78,252,045	153,636,838	50.9
1969	75,106,038	97,440,406	187,919,560	51.9
1970	77,213,611	103,651,585	195,722,096	53.0
1971	75,396,638	100,752,421	191,647,198	52.6
1972	75,806,367	108,879,186	209,855,737	51.9
1973	78,997,837	125,112,006	237,787,204	52.6
1974	81,575,146	142,903,650	268,952,254	53.1
1975	83,989,647	156,399,437	293,822,726	53.2

SUMMARY OF 1973 INDIVIDUAL TAX RETURNSBY INCOME LEVEL

<u>Adjusted gross income</u>	<u>National totals</u>	<u>Percent</u>	<u>Six district totals</u>	<u>Percent</u>
Under \$2,000	11,505,803	14.8	1,309,888	15.1
\$ 2,000 to \$ 4,999	14,556,835	18.8	1,665,128	19.2
5,000 to 9,999	19,911,160	25.7	2,164,976	25.0
10,000 to 14,999	15,280,506	19.7	1,703,924	19.6
15,000 to 24,999	12,548,031	16.2	1,421,759	16.4
25,000 and over	<u>3,709,482</u>	<u>4.8</u>	<u>405,294</u>	<u>4.7</u>
Total	<u>a/77,511,817</u>	<u>100.0</u>	<u>8,670,969</u>	<u>100.0</u>

a/The total does not include 4,063,329 individual returns entered on IRS computer files after July 13, 1974.

SUMMARY OF 1973 INDIVIDUAL TAX RETURNSBY WHO SIGNED RETURN AS THE PREPARER

<u>IRS district</u>	<u>Return preparer</u>			<u>Total</u>
	<u>Taxpayer</u>	<u>IRS</u>	<u>Third party</u>	
Austin	1,136,604	15,654	995,488	2,147,746
Detroit	1,171,210	12,049	1,214,402	2,397,661
Greensboro	871,805	17,166	1,026,005	1,914,976
Omaha	216,916	8,599	350,627	576,142
Portsmouth	196,383	3,853	125,165	325,401
Seattle	<u>752,213</u>	<u>2,760</u>	<u>554,070</u>	<u>1,309,043</u>
Total	<u>4,345,131</u>	<u>60,081</u>	<u>4,265,757</u>	<u>a/8,670,969</u>
Percent	50.1	0.7	49.2	100.0
National total	38,259,866	568,208	38,683,743	<u>a/77,511,817</u>
National percent	49.4	0.7	49.9	100.0

a/The total does not include those individual returns entered on IRS computer files after July 13, 1974.

NUMBER OF TAXPAYERS SEEKING IRS ASSISTANCEFISCAL YEARS 1966 TO 1975

<u>Fiscal year</u>	<u>Type of assistance</u>			<u>Total assistance</u>
	<u>Telephone</u>	<u>Walk-in</u>	<u>Correspondence</u>	
1966	16,615,369	9,140,068		25,755,437
1967	17,095,801	9,172,032		26,267,833
1968	17,000,993	9,580,631		26,581,624
1969	18,306,188	10,322,145		28,628,333
1970	18,000,000	10,000,000		28,000,000
1971	18,000,000	9,000,000	<u>a</u> /350,000	27,350,000
1972	19,000,000	9,000,000	300,000	28,300,000
1973	22,697,446	10,659,816	255,992	33,613,254
1974	24,680,223	9,527,406	241,092	34,448,721
1975	29,146,081	11,204,885	194,242	40,545,208

a/1971 was the first year IRS reported separately the number of taxpayers that wrote for assistance.

# 1973 Federal Income Tax Forms

## From The Commissioner

Here is your Form 1040 package. The forms in this package appear to be the right ones for you based on the return you filed last year.

I want to call your attention to the Presidential Election Campaign Fund Check-Off. Without increasing your tax or decreasing your refund, you have the right to earmark \$1 (on a joint return, \$1 each for husband and wife) of your taxes for a general fund to meet campaign expenses of the 1976 Presidential Election. This check-off is on line 8 of the Form 1040.

With the information in these instructions, you should be able to prepare your own return. **If you need help, please call us at the number listed for your area on page 2 (see page 26 for California numbers) or visit your nearest Internal Revenue office.** If you have someone else help you, be sure to select a qualified person.

You can help yourself and us if you check your return to make sure that it is correct and then file it early. Thanks for your cooperation.

*Donald C. Alexander*  
Commissioner of Internal Revenue

Peel off the label below and place it in the address area of the Form 1040 you file. Make necessary corrections. ▼

Notification highlighted by GAO.

## New Features

- ▶ Provision has been made on Form 1040 to designate \$1 (on a joint return, \$1 each for husband and wife) of your taxes for the **Presidential Election Campaign Fund**. See line 8.
- ▶ On Schedule A, a separate listing for certain charitable contributions and medical expenses is no longer required.
- ▶ Schedule B has been eliminated since a detailed listing of dividends and interest is no longer required.

▶ **Call us toll free** for answers to your Federal tax questions. See page 2 (or page 26 for California) for telephone numbers.

### This package contains the following:

**Form 1040**  
U.S. Individual Income Tax Return

**Schedule A**  
Itemized Deductions

**Schedule D**  
Capital Gains and Losses

**Schedules E&R**  
Supplemental Income Schedule AND  
Retirement Income Credit Computation

Order Blank for Forms

**Department of the Treasury**  
**Internal Revenue Service**

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Official Business  
POSTMASTER: This matter must be forwarded and delivered without payment of postage due. If forwarding address is to a foreign country, or if no forwarding address, DO NOT DESTROY. Handle in accordance with special instructions in Postal Bulletin for December.

BEST COPY AVAILABLE

# 1975 Federal Income Tax Forms

From  
The Commissioner

### Watch for Tax Law Changes

At the time we printed this package, Congress was considering proposals to add or change several tax law provisions. If any changes in the tax law are enacted and apply to 1975, they must be taken into account in computing 1975 income taxes. Internal Revenue will do its best to provide supplemental forms, instructions and information for taxpayers affected by any new legislation.

### This package contains the following:

- Form 1040  
U.S. Individual Income Tax Return
- Schedules A&B  
Itemized Deductions and  
Dividend and Interest Income
- Schedule C  
Profit or (Loss) From  
Business or Profession
- Schedule D  
Capital Gains and Losses
- Schedules E&R  
Supplemental Income Schedule AND  
Retirement Income Credit Computation
- Schedule SE  
Computation of Social  
Security Self-Employment Tax
- Order Blank for Forms

Here is your Form 1040 Package. The forms in the package appear to be the right ones for you. If, however, you decide to use Short Form 1040A, you can get Form 1040A and its instructions from any Internal Revenue Service office and many banks and post offices.

I am sorry to say that the 1040 Form is more complex than last year's and this package is larger than last year's. This year the Census Bureau has called on us to collect some detailed residence data, and we have changed the return and instructions to provide for the new credits for personal exemptions, earned income, and purchase of a new principal residence. We have also provided for the new deduction for payments to individual retirement plans and the taxes that may apply as a result of excess contributions or premature distributions.

The keys to a simpler tax return are (1) a simpler tax law and (2) our asking you for only what the law requires us to obtain.

Please note the Presidential Election Campaign Fund Check-Off on line 8 of your 1040. Without increasing your tax or decreasing your refund, you have the right to earmark \$1 (on a joint return \$1 each for husband and wife) of your taxes for a general fund to meet expenses of the 1976 Presidential Election.

The instructions have been provided to help you prepare your own return. If you need help, please call us at the number listed for your area on page 34 or visit your nearest Internal Revenue office. If you decide to have someone else help you, be sure to select a qualified person.

You can help yourself and us if you check your return to make sure that it is correct and then file it early. Thanks for your cooperation.

*Donald C. Alexander*  
Commissioner of Internal Revenue

Notification highlighted  
by GAO.

Department of the Treasury  
Internal Revenue Service



Peel off the label below and place it in the address area of the Form 1040 you file. Make necessary corrections on label. ▼

### Third Class Bulk Rate

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POSTMASTER: This matter must be forwarded and delivered without payment of postage fee. If forwarding address is to a foreign country, or if no forwarding address, DO NOT DESTROY. Handle in accordance with special instructions in Postal Bulletin for December.

SAMPLE SIZE OF  
LOW-INCOME TAXPAYERS INTERVIEWED

Location (note a)	Group (note b)	Sample size	Not interviewed			Completed inter- views
			Unable to locate	Refused	Other	
Omaha	A	185	71	11	3	100
	B	182	68	10	4	100
	C	184	62	16	4	102
San Antonio	A	168	75	8	3	82
	B	186	65	12	2	107
	C	193	93	8	2	90
Seattle	A	182	69	23	1	89
	B	183	57	31	4	91
	C	179	52	35	7	85
North Carolina	A	171	70	1	2	98
	B	167	72	1	-	94
	C	154	50	2	3	99
New Hampshire	A	187	76	12	2	97
	B	197	80	19	4	94
	C	184	67	11	5	101
Detroit	A	175	71	16	2	86
	B	179	80	17	4	78
	C	171	55	28	2	86
Total		3,227	1,233	261	54	1,679

a/Each location selected was a 3-digit ZIP code area. Because the area sizes vary due to population density, it was decided to present the results in terms of the best descriptor of the ZIP code area; thus some locations are identified as cities and others as States. Only portions of North Carolina and New Hampshire were represented in the sample.

b/A - Return signed only by taxpayer  
 B - Return stamped as prepared by IRS  
 C - Return signed as prepared by someone other than taxpayer or IRS

Department of the Treasury / Internal Revenue Service / Washington, D.C. 20224

## Commissioner

MAR 11 1976

Mr. Victor L. Lowe  
Director, General Government Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Lowe:

Thank you for the two draft copies of the GAO Report to the Joint Committee on Internal Revenue Taxation entitled, "Internal Revenue Service Assistance to Taxpayers in Filing Their Returns."

We have read the draft Report with great interest and have indicated several proposed changes on the enclosed marked copy. Based upon our review to this point the analysis appears to be fair and complete and reflects the progress we have made in fulfilling our mission to the taxpaying public. We agree with many of the recommendations and have already begun to implement them; the others we will carefully consider.

In reference to Chapter 6, "Complete Return Preparation" we have suggested some editorial changes as noted on the draft copy of the Report. However, we do not agree with the recommendation relating to the tax credit for preparer fees. We believe that such a provision of law would merely add complexity to an already overly complex law and further complicate the tasks of return preparation and tax administration. IRS strongly believes the best course of action is to simplify the tax laws.

As you requested, we are returning the two draft copies of the Report which you furnished for our review.

With kind regards,

Sincerely,



Commissioner

Enclosures

PRINCIPAL OFFICIALS RESPONSIBLE  
FOR ADMINISTRATION OF ACTIVITIES  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
<b>SECRETARY OF THE TREASURY:</b>		
William E. Simon	Apr. 1974	Present
George P. Shultz	June 1972	Apr. 1974
John B. Connally	Feb. 1971	June 1972
David M. Kennedy	Jan. 1969	Feb. 1971
<b>COMMISSIONER OF INTERNAL REVENUE:</b>		
Donald C. Alexander	May 1973	Present
Raymond F. Harless (acting)	May 1973	May 1973
Johnnie M. Walters	Aug. 1971	Apr. 1973
Harold T. Swartz (acting)	June 1971	Aug. 1971
Randolph W. Thrower	Apr. 1969	June 1971
<b>ASSISTANT COMMISSIONER, ACCOUNTS, COLLECTION, AND TAXPAYER SERVICE</b>		
Robert H. Terry	Aug. 1973	Present
Dean J. Barron	July 1971	Aug. 1973
<b>DIRECTOR, TAXPAYER SERVICE DIVISION:</b>		
Stanley Goldberg	Mar. 1974	Present
Herman C. Slaski (acting)	Jan. 1974	Mar. 1974
John Weber	Oct. 1973	Jan. 1974
John Weber (acting)	July 1973	Oct. 1973
Herman C. Slaski (acting)	June 1973	July 1973
William F. Culliney	Nov. 1971	June 1973

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